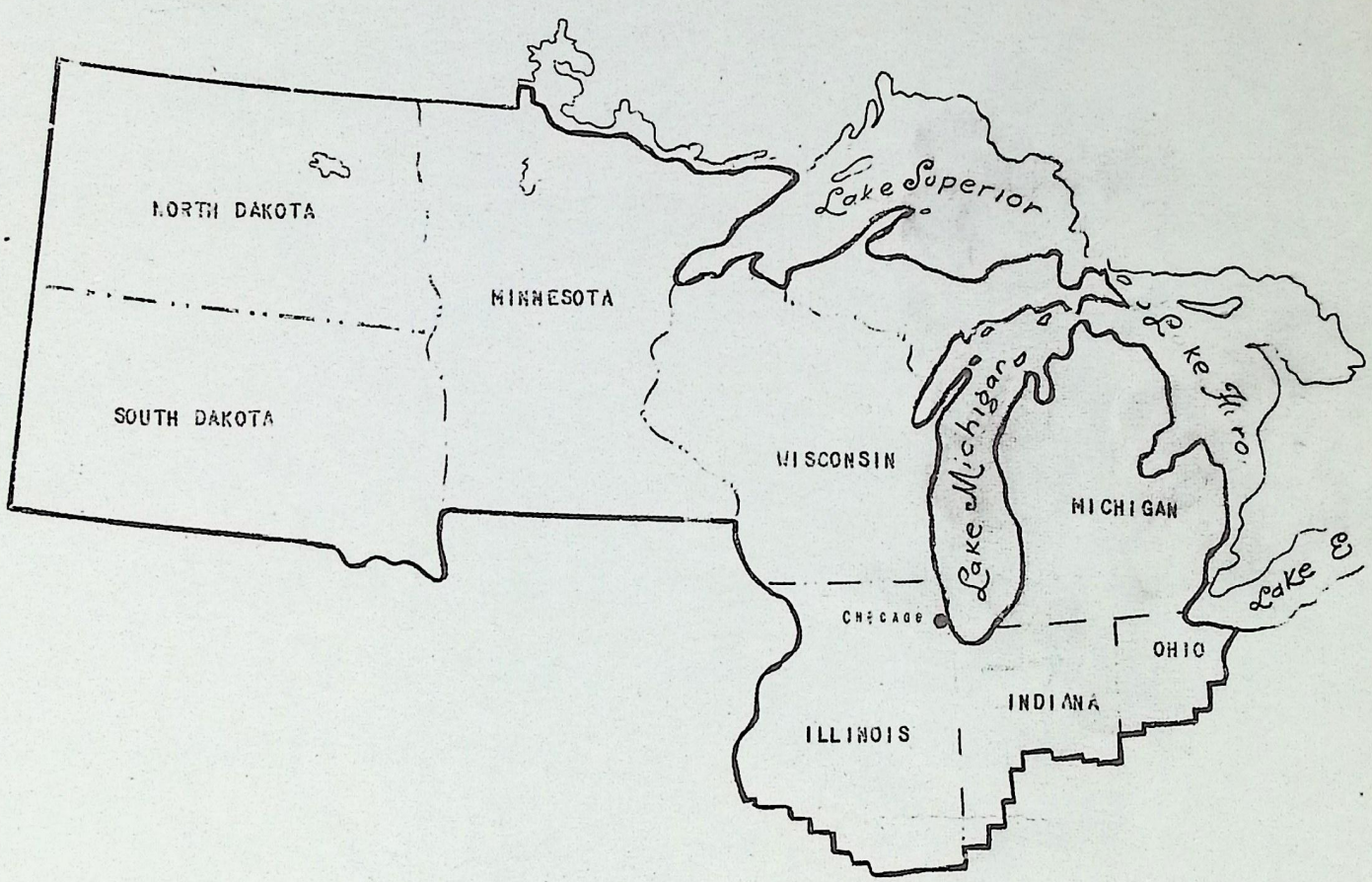
OPERATIONS DIGEST

MAY 15, 1948



PREPARED

BY

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Table 1
Operating Statement
Chicago Master Region
Consumer & Capital Goods
January-April 1948

1948	End-of-Month Inventory $	Acquisitions $	Disposals $	Recovery Rate %
January	235,458,000	-39,309,000	34,667,000	15
February	206,877,000	9,957,000	38,536,000	20
March	226,395,000	49,553,000	30,034,000	18
April	190,275,000	-4,010,000	32,109,000	8

Inventories

The Chicago-office holds two-thirds and the Detroit-office one-third of the Chicago-Master-Region's IBM inventory of $190 million. Approximately $15 million of the Chicago-office's inventory has been assigned to the Minneapolis office for programming and sale. In addition, the Chicago Master Region has a suspense inventory of $49 million of which $44 million is held by the Detroit office. In spite of the large transfers to JANMAT in the last 9 months, metal-working and industrial equipment still comprise over 50% of the Chicago-Master-Region's IBM inventory.

Both Chicago and Detroit recorded negative net acquisitions in April. Chicago's negative net acquisitions of -$3.4 million arose from the elimination of "water" in connection with inventory firming. Detroit's negative net acquisitions arose from owning-agency withdrawals, transfers of inventory to other regions, and a net transfer of inventory into the suspense account. These transactions amounted to $3.4 million and exceeded net declarations ($2.8 million) by $0.6 million.

Disposals

Chicago-Master-Region disposals of $32.1 million in April were distributed as follows: Detroit $16.6 million, Chicago $13.9 million, and Minneapolis $1.6 million. Sales comprised $25.8 million of the total $32.1 million. JANMAT disposals of $4.5 million made up most of the other disposals.

The Washington office recently instructed the regions (Administrative Lettergram No. 663) to make a concentrated drive to promote sales and donations to priority groups. The Chicago Master Region in April sold and donated $2.7 million of consumer & capital goods to federal, state, and local governments, and to private, non-profit, priority groups. The April total exceeded March by $0.6 million.

Chicago-office over-the-counter sales to veterans in April amounted to $71,000. This represented no substantial change from March. However, the number of veterans (3,712) who made purchases at Chicago-office over-the-counter sales in April increased by 20% over March. These sales in April realized a recovery rate of 30%.

Cancelled sales in the Chicago office amounted to $0.8 million in April. This represented a marked reduction from the high level of cancellations in the 4 preceding months and was the third smallest monthly total in the last 16 months.

Recovery Rate

The Chicago-Master-Region recovery rate reached a new low in April of 8%. This low rate was due to the lowest recovery rate (12%) for the Chicago office in the last 5 months and to the lowest Detroit recovery rate (4%) on record. The low Chicago-office rate was due to a generally lower recovery rate on most types of property rather than to a lower recovery rate on any particular commodity-group or from any particular sale. The more frequent use of the spot-bid sale does not appear to have reduced the average recovery rate. Eleven (11) spot bid sales held by the Chicago office in the last 2 months have realized an average recovery rate of 22%.

The very low Detroit-office recovery rate in April was due to the low recovery rate realized on sales of auto and aircraft parts and of industrial and metalworking machinery. Cancellations of several sales from previous months, which had relatively high recovery rates, also contributed to the lower Detroit-office recovery rate for April.

Offerings

On May 1, the Chicago Master Region had only $20 million of its $190 million IBM inventory programmed for sale. This low level of offerings can be traced to the same basic problem that has hampered regional disposals for the last 4 months. This problem centers about the fact that almost 90% of the IBM inventory is now unavailable for programming and sale. The JANMAT freeze, which was a major obstacle to programming for sale in the latter part of 1947, is no longer important. Only $3 million of the Chicago-office inventory of $126 million is currently tied up by JANMAT. The basic problem today

and for the next several months centers on the fact that most of the regional inventory is withheld from sale for refirming and reconciliation.

If refirming and reconciliation can be accelerated, sales should accelerate proportionally. In the spot-bid sale the region has found the road to rapid disposal. In the last 2 months, 11 spot-bid sales, each running for only 1 day, achieved an average disposal rate of 98%.

In April the Chicago office stepped up its sales advertising. More sales catalogs were distributed in April than in February and March combined. Also, expenditures for newspaper advertising in April ($20,400) were the largest of any month since last July.

Warehouse Deactivation

On April 30, 47% of the tonnage in the Chicago Master Region scheduled for deactivation by June 30 had been deactivated. Seven (7) major warehouses hold 85% of the tonnage scheduled for deactivation by June 30. On April 30, 29% of the January 1 tonnage in these 7 warehouses had been deactivated.

Deactivation has lagged farthest behind schedule in 5 major warehouses. Warehouse 9, scheduled for deactivation on March 31, was only 25% deactivated on April 30. Warehouses 16, 2, 4, and 19 --scheduled for deactivation on June 30--were on April 30, respectively, 16%, 18%, 28%, and 28% deactivated.

In addition to the 82,000 tons held in warehouses scheduled for deactivation by June 30, the Chicago Master Region has 16 retained warehouses holding approximately 130,000 tons.

Personnel

Personnel employed by the Chicago Master Region numbered 3,485 on April 30, a net reduction of 29 employees as compared with March 31. On April 30, the Chicago office had 2,465 employees, Detroit 789, and Minneapolis 231.

Employees holding permanent or probational status on April 30 amounted to 53% of total personnel in Chicago vs. 83% in Minneapolis. The Detroit figure is not available for April. However, on March 31, 71% of all Detroit employees had permanent or probational status.

Table 2
Income & Expense
April 1948

	Millions of $
Total Income	
Capital & Consumer Goods Sales	$1.94
Real Property Sales	0.18
Rentals	0.58
Total	$2.70
Total Expense	
Salaries & Wages	$0.99
Payments in Lieu of Taxes	0.65
Warehouse Operation Costs	0.21
Miscellaneous Contractual Services	0.14
Plant Clearance	0.04
Supplies & Materials	0.03
Protection & Maintenance of Property	0.03
Rents & Utilities	0.02
Reimbursements to Owning Agencies	0.02
Other	0.05
Total	$2.18
Excess of Income over Expense	$0.52

The net income of the Chicago Master Region in April ($0.5 million) was the lowest on record. This was due to a sharp fall in income from real property sales. In March and April, rentals on property leased were twice as large as was the income from the sale of real property. This contrasts with the 6 preceding months in which income from real property sales was more than five times as large as rentals.

Income from capital & consumer goods sales also slumped sharply in April. This decline was due primarily to a 50% fall from March to April in income from Detroit-office sales of capital & consumer goods. The decline in Detroit-office income occurred in spite of an increase from $5 million to $15 million in Detroit-office sales at acquisition cost from March to April. A lower average recovery rate plus sales cancellations accounted for the lower income in April from Detroit-office sales.

Several adjustments to the Chicago-Master-Region financial statement would increase its April net income from $0.5 million to $1.9 million. First, the Chicago Master Region in April transferred without charge or sold at a discount to priority groups capital & consumer goods having a market value of $805,000 for $39,000. Taking account of the market value of the property transferred without charge would increase the regional net income by $766,000. Second, the $647,000 payment in lieu of taxes recorded in April covered this item of expense for a full calendar year. Only 1/12 of this amount is property chargeable to the month of April. Adjusting for this factor would reduce April's operating expense and increase April's net income by $593,000.

Shipping Backlog

On May 7, the Chicago office had a backlog of 1,612 unshipped orders. Lack of shipping instructions and other restrictions prevented the shipment of 287 of this total. Approximately 50% of the unshipped orders, with no restrictions, represented JANMAT orders. The remaining 50% consisted mainly of unshipped commercial orders. The backlog on unshipped orders has been reduced considerably in the last month, especially on JANMAT orders where the reduction has amounted to 65%.

Complaints

In April, the Chicago office received an average of 100 customer complaints per week. As in past months, the largest single source of customer complaint has concerned the delivery of orders. Approximately 28% of all complaints handled in April originated from this source. The backlog of unsettled complaints (25) on May 7 was the lowest in the region's experience.

Claims

The Chicago Master Region on April 30 had 1,335 unsettled customer claims and overpaid accounts. This represented a reduction of slightly more than 50% since February 1. As in past months, Detroit held more unsettled claims than did Chicago while Chicago held most of the overpaid accounts. In April, for the second straight month, the number of settlements (claims + overpaid accounts) declined in both Chicago and Detroit.

Of the 503 unsettled claims held by the Chicago office on April 30, 116 or one-third had been on hand for more than 3 months. (By May 15, 56 of these 166 claims had been settled.) Settlement of slightly more than one-half of the Chicago-office's backlog of unsettled claims has been delayed because operating divisions have failed to supply the Claims Division with necessary documents or technical information required to settle the claims.

over the past 4 months the Chicago office has received relatively fewer customer appeals on its claims decisions than has either the Detroit office or all WAA regions in the aggregate.

In April, Chicago-office settlements averaged 76% of the amounts asked by customer claimants. Detroit's average was 52%. However, in the 3 preceding months, Chicago-office settlements averaged 37% of the amounts claimed vs. 53% for Detroit and 42% for all WAA regions in the aggregate.

Real Property

Table 3
Real Property Operations
Chicago Master Region
April 1948

Opening Inventory	$260,689,000
Adjustments to Inventory	-2,903,000
Acquisitions	71,000
Sales	3,128,000
Other Disposals	4,000
Recovery Value on Sales	179,000
Rentals	580,000
Recovery Rate	6%
Closing Inventory	$254,725,000

The real property inventory of the Chicago Master Region has been reduced 23% since January 1. Most of this reduction has resulted from bookkeeping adjustments to inventory records rather than from the disposal of property. The Chicago office accounted for almost the full $30 million of Chicago-Master-Region disposals in the January-April 1948 period. The Chicago office has 78% of the April 30 real property inventory of $255 million held by the Chicago Master Region.

The rather low recovery rate (6%) realized on real property sales in April arose primarily from the sale of supply lines at Sangamon Ordnance, having an acquisition cost of $2,000,000, for $98,000.

Outlook

Business firms are still in the market for a record volume of plant and equipment, and it is expected that plant and equipment expenditures in 1948 will exceed those in 1947 by 15%. However, less than 5% of the $19 billion of plant and equipment expenditures, planned for 1948, will be spent for used plants and machinery.

The machine-tool industry increased its domestic-market sales by 25% in the first quarter of 1948 as compared with the corresponding period in 1947. The market for specialized tools is better than is the market for standard types. Small tool-shops, especially, are making heavy machine-tool purchases.

The Chicago Master Region has an $18 million inventory of auto parts and accessories--most of it held by the Detroit office. The market for auto parts and accessories slumped during the past winter, but has now recovered to the all-time peak level reached last year.

Textile and apparel inventories held by the Chicago Master Region amount to $7 million. Private manufacturers are currently increasing their output of lower-quality, cheaper-priced textiles and apparel, and this may make it more difficult to sell the remaining surplus inventories of such merchandise. Private industry has recently increased its prices on better-quality textiles and apparel.

The outlook for export markets is dominated by the recently enacted European Recovery Program. Although United States exports will probably increase in the next several months, total U. S. exports in 1948 will likely fall short of the record exports in 1947. Great Britain, France, Italy, Netherlands, and Germany will provide the greatest market opportunities under the European Recovery Program. This program will also increase the market opportunities for U. S. industrial equipment in South America. By providing a substantial part of the European food requirements under this program, South American countries will secure the funds they need to purchase industrial equipment in the United States.

Steel-scrap prices are unlikely to change much in the near future. The continued high level of civilian demand for steel, plus increased armament expenditures, plus the European-aid program will maintain the heavy demand for steel scrap that has prevailed for the last year. However, the large steel mills are strongly opposed to further increases in steel-scrap prices and their resistance to such increases will be bolstered by the 30-day steel-scrap inventories that they have been able to accumulate over the last month or two.

The market for scrap-iron declined some in the first week of May after being at record levels for the last several years. This decline arose from curtailed foundry operations which, in turn, resulted from a coal and pig-iron shortage. Although the market-outlook for scrap-iron over the next several years is good, another

decline may develop within a month or two if another prolonged coal strike occurs. Troubled labor conditions in the railroad, electrical, automobile, and related industries also cloud the price and general business outlook.

All non-ferrous metal-scrap enjoyed a good market in April. The demand for lead and aluminum scrap has continued strong in May, but the market for brass and copper scrap has slumped in the last two weeks.